



History of Blue Cross Blue Shield of Michigan and PA 350 of 1980

Presentation to Senate Insurance Committee

BCBSM provides significant value to Michigan

Providing health insurance to over 4.3 million people

7000 employees throughout Michigan

Available in every zip code; available regardless of health status

\$17 billion in annual claims – that's over \$48 million every day

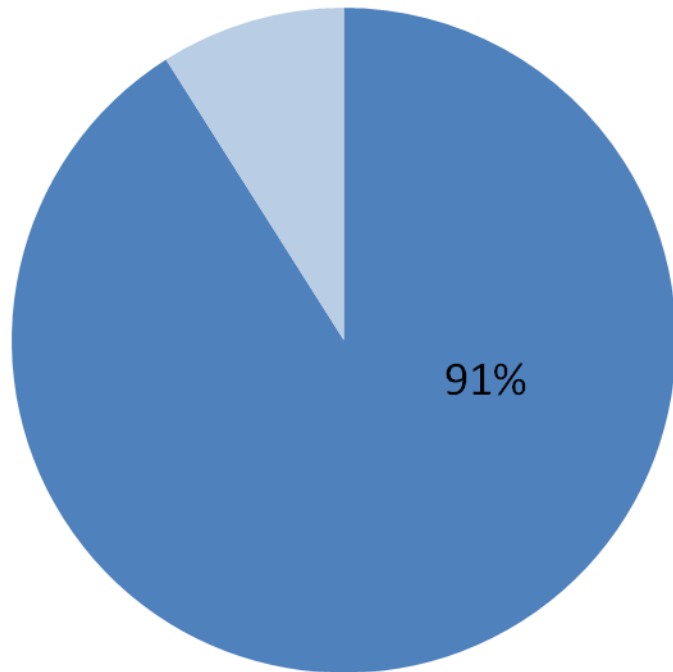
- BCBSM is a **Michigan company**, an **independent** licensee of the Blue Cross and Blue Shield Association, that represents our members to ensure they have access to the health care they need, when they need it and at a price they can afford.
- For the past 70 years, BCBSM has worked as a **committed partner** with health care providers, businesses, labor, state government and consumers towards solving health care problems.

BCBSM's goals are Michigan's goals:

Expanding Access, Controlling Health Care Costs, Improving Wellness, and Strengthening Health Care Quality

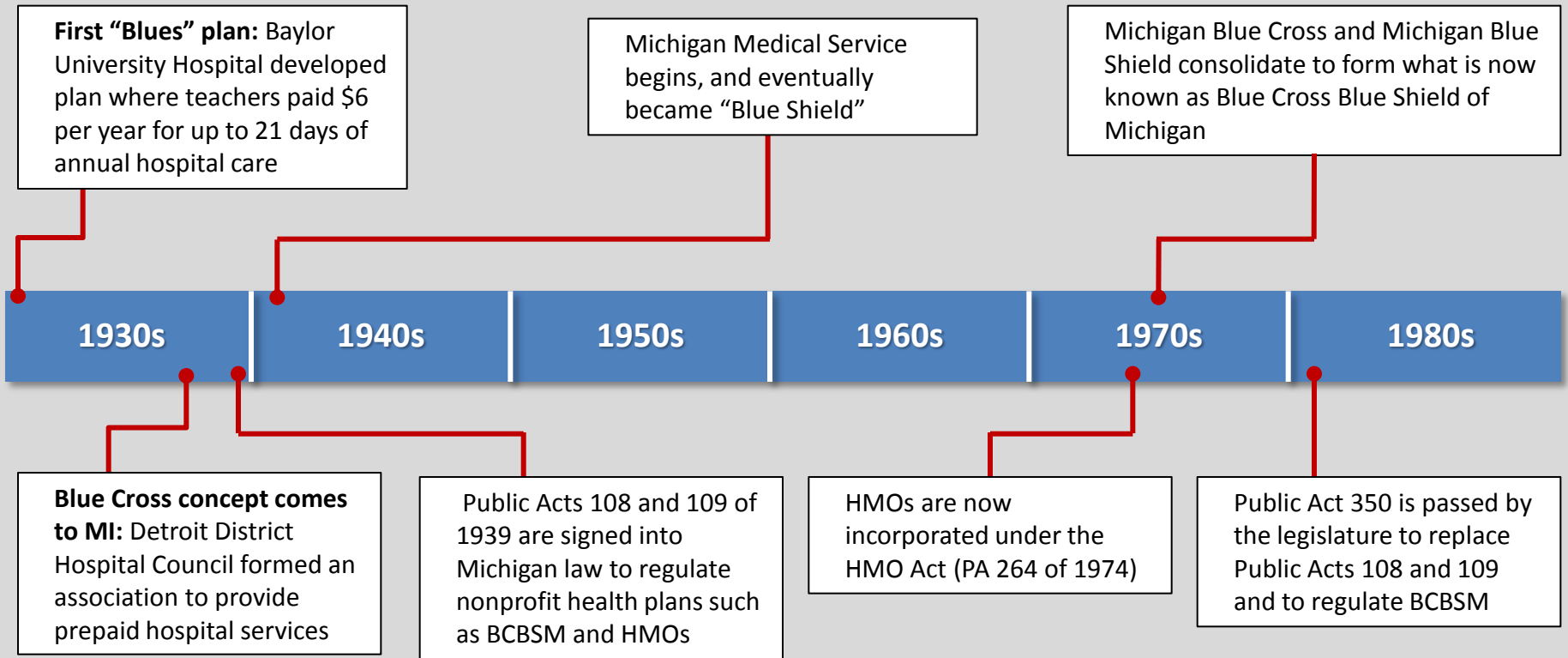
As a nonprofit, BCBSM pays a high percentage of premium dollars toward medical claims

Percent of BCBSM premiums collected used to pay claims, 2010



91 cents of every dollar received by BCBSM goes directly to hospitals, doctors and other providers across the state.

Evolution of Blue Cross Blue Shield of Michigan



The Blues began as an innovative concept to ensure people could access and afford health care when they needed it

Overview of PA 350

Part 1 Legislative Intent and Definitions

Part 2 Corporate Structure

Part 3 Corporate Governance

Part 4 Coverage and Benefit Requirements

Part 5 Provider Contracting and Associated Requirements

Part 6 Rate Filing, Approval and Reporting

Part 7 PA 350 of 1980 Implementation Guidelines

PA 350 establishes significant and numerous requirements of BCBSM that are not required of any other insurer.

Key Elements of PA 350: Part 1 - Legislative Intent and Definitions

Part 1 explains the purpose of PA 350

“... to promote the appropriate distribution of health care services for all residents of this state, ...and to assure...reasonable access to, and reasonable cost and quality of, health care services...” PA 350, Sec. 102 (1)

It exempts nonprofit health care corporations from state and local taxes

“Each corporation subject to this act is declared to be a charitable and benevolent institution and its funds and property shall be exempt from taxation by this state or any political subdivision of this state.” PA 350, Sec. 102 (1)

Legislative intent was to provide for regulation by the insurance commissioner.

“...this act shall be construed to provide for the regulation and supervision of nonprofit health care corporations by the commissioner of insurance...” PA 350, Sec. 102 (2)

Key Elements of PA 350: Part 2 – Corporate Structure

Part 2 expands on the requirements of a health care corporation, including its articles of incorporation.

Required Surplus: PA 350 requires BCBSM to have a minimum surplus of 200% and a maximum surplus of 1000% of RBC (risk-based capital).

Subsidiaries: PA 350 limits the type of investments and business lines BCBSM can own.

Nonprofit Status: The act specifically prohibits BCBSM from becoming a mutual or for-profit company.

AG authority over BCBSM: The attorney general has the authority to review actions taken by BCBSM to determine if the action is compliant with PA 350.

Key Elements of PA 350: Part 3 – Corporate Governance

Part 3 describes the corporate organization and structure required of a nonprofit healthcare corporation.

- Requires BCBSM to be community governed with members on its board of directors representing consumers, employers, labor, seniors, hospitals, providers and gubernatorial appointees.
- Specifies how BCBSM must be organized and mandates a specific form of corporate management and governance.

Key Elements of PA 350: Part 4 – Coverage and Benefit Requirements

Chapter 4 provides for the requirements of who a plan has to cover, what services the plan has to provide, and an individual's rights under a contract.

- **Guarantee issue:** Requires that BCBSM offer health care benefits to all residents of Michigan.
- **Mandates:** All coverage mandates found in the Insurance Code are found here for BCBSM. Included are:
 - Inpatient Substance Abuse
 - Breast Cancer Services
 - Programs to prevent the onset of clinical diabetes
- **Wellness Discounts:** Authorizes BCBSM to provide discounts to subscribers who participate in wellness programs.

Key Elements of PA 350: Part 5 - Provider Contracting and Associated Requirements

Part 5 articulates guidelines BCBSM should follow to determine reimbursement arrangements with providers.

- Governs the relationship between BCBSM and providers regarding contracts, provider class plans and the settling of conflicts.
- Provides requirements for the development of BCBSM's preferred provider network.

A "Provider Class Plan" provides for the contract and reimbursement agreement that BCBSM has with a category of health care service providers or professionals to provide services.

Key Elements of PA 350: Part 6 – Rate Filing, Approvals and Reporting

Part 6 creates the process for BCBSM to obtain approval of rates for products and the process for a review of a rate.

Commissioner's right to examine: Permits the insurance commissioner to review and examine the affairs of BCBSM. PA 350 , Sec. 603

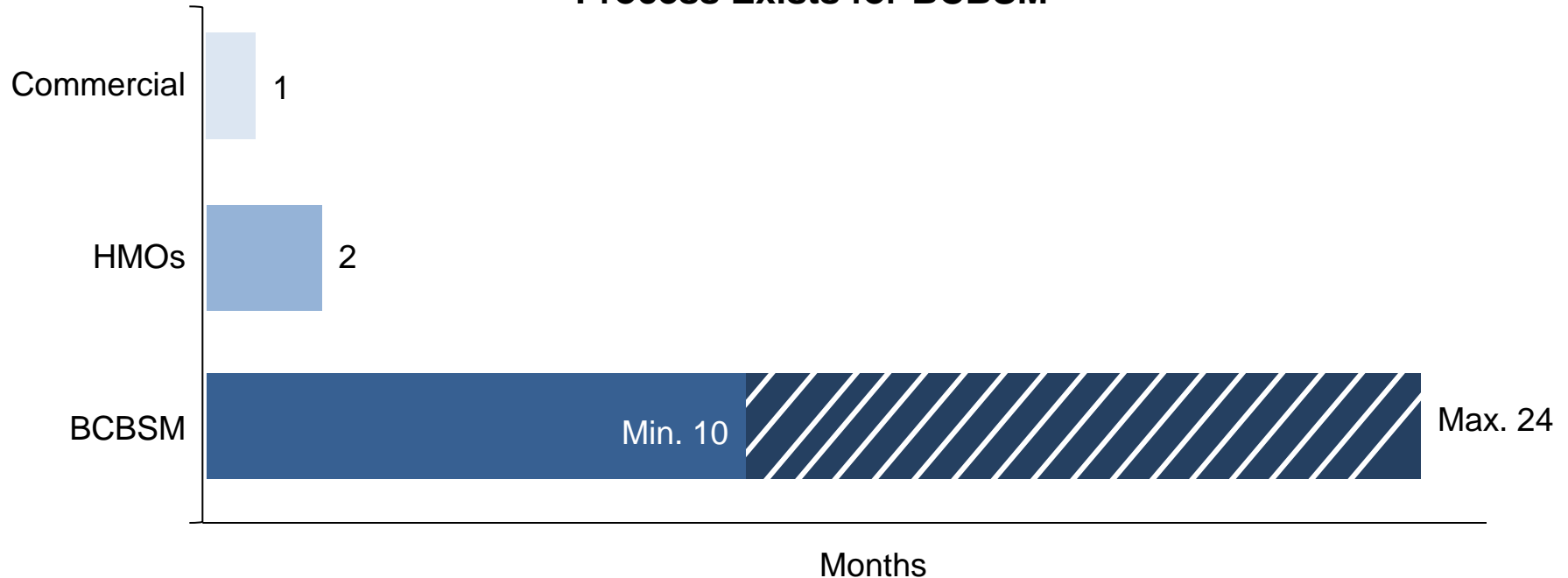
AG authority over BCBSM: The attorney general has the authority to review and challenge rates filed by BCBSM. PA 350, Sec. 613

Medigap Subsidy: Allows for cost transfers for the benefit of senior citizens, not to exceed 1% of a nonprofit health care corporations earned subscription income. PA 350, Sec. 609 (5)

Rate-filing requirements: Creates an extensive timeline and process for BCBSM to file rates with the commissioner and a process by which rates filed with the commissioner may be challenged.

Key Elements of PA 350: Part 6 – Rate Filing, Approvals and Reporting

A Different Rate Approval Process Exists for BCBSM



In 2006, it took 23 months for BCBSM to get a 12-month rate to market.

PA 350 establishes a separate regulatory structure for BCBSM relative to other insurers

Individual Market Rules	BCBSM	HMOs	Commercials
Medical Underwriting	None	11 months out of the year	Can deny coverage based on health status
Guarantee Issue and Coverage	Yes	1 month each year	None
Rating Factors	Community rated – majority; Age rated – limited	Age, gender, geography, occupation	Health status, age, gender, geography, occupation
Rating Bands	Community rated – none; Age rated – 4:1	No limit	No limit

Summary

- PA 350 of 1980 is outdated and creates an unlevel playing field for insurers.
- The market has shifted significantly since PA 350 of 1980 was enacted, and the regulatory structure should reflect these changes.
- We agree with the governor that PA 350 of 1980 should be modernized.
- We look forward to working with this committee to shape this change.

Questions?